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FAO-EU FLEGT PROGRAMME

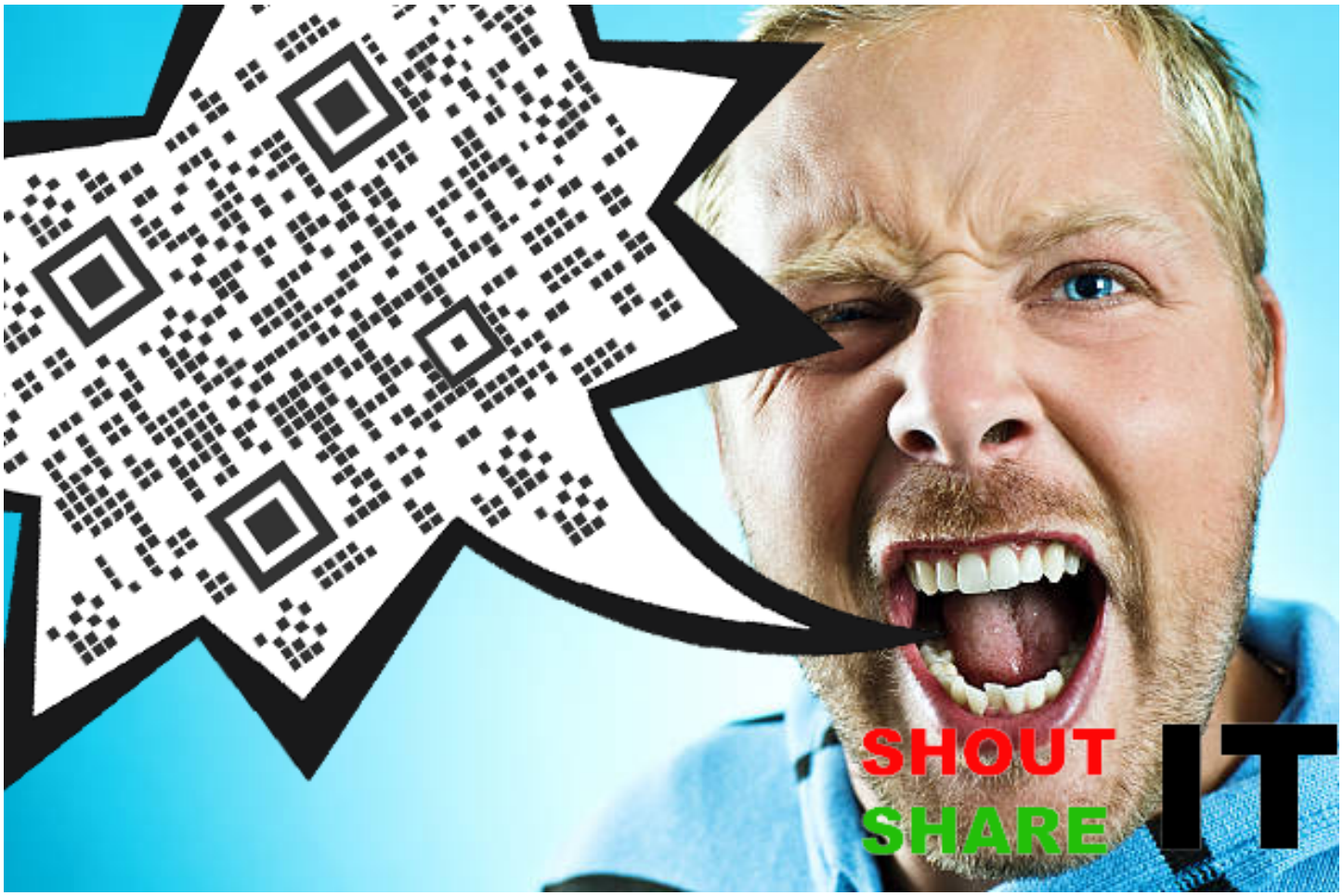
RESULTS, IMPACTS AND LESSONS LEARNED FROM DESIGNING AND IMPLEMENTING TIMBER LEGALITY VERIFICATION SYSTEMS

BACKGROUND

Illegal practices in the forest sector are driven by poor forest governance, corruption, unclear legal frameworks, weak law enforcement, and demand for cheap timber and timber products. For local and national governments, illegal and informal practices lead to lost revenue and poor economic growth[1] while operators experience unfair competition. Illegal logging also contributes to forest degradation and deforestation, biodiversity loss, and erodes livelihoods of forest-dependent communities, increasing the risks of conflicts over land and resources and disempowerment of forest-dependent communities and Indigenous Peoples. Ultimately, these activities seriously undermine efforts to improve sustainable forest management (SFM) and significantly impact a country's ability to achieve broader sustainable development objectives such as poverty alleviation, food security, and climate change mitigation.

As part of global efforts to combat illegal logging and associated trade, consumer countries have introduced demand-side measures focussing on trade regulations for wood products, requiring importers to apply due diligence to ensure the legality of their sources. Public and private sector organizations have also increased their commitment to legal and sustainable wood value chains by adopting corresponding procurement policies, international standards, and best practices. The European Union's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan (AP) combines these demand-side measures with the development of binding trade agreements - known as Voluntary Partnership Agreements (VPAs) - between the European Union (EU) and tropical timber-producing countries.

1 Interpol estimates that the value of illegal timber trade is between $51 – 152 billion USD per year, equivalent to roughly one million truckloads between 2012 and 2017.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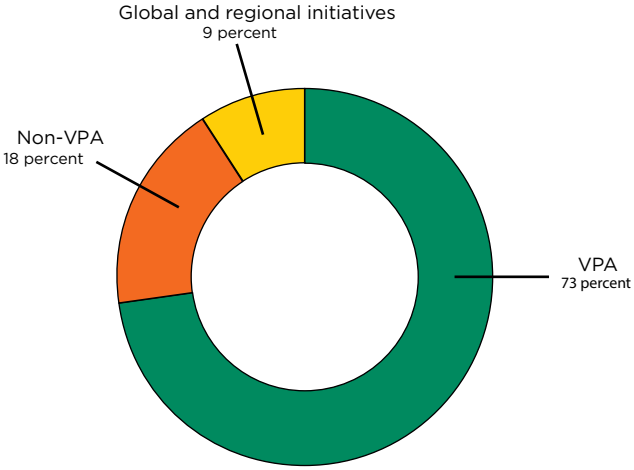
Central to the VPA is developing and implementing national Timber Legality Assurance Systems (TLAS). A fully functional TLAS allows tropical timber-producing countries to issue FLEGT licenses that can fulfil due diligence requirements for importers looking to introduce FLEGT-licensed timber products into the EU market. Negotiation of a VPA also promotes transparent and inclusive forest governance in tropical timber-producing countries through participatory and multi-stakeholder processes and enabling legal, policy, and institutional reforms in the forestry sector.

There is a risk that, through systems development, smallholder timber producers and micro, small and medium enterprises (MSMEs) will remain unaware of legal requirements or be unable to demonstrate compliance. Critical constraints preventing formalisation and market participation include a lack of understanding of current legal frameworks and requirements governing their practices, a lack of capacity and incentives to comply, isolation of individual forest producers and processors, weak business links, lack of access to financial resources and market information and poor organizational capacity. Not only do these informal operators in the forest sector need support to move towards formalization, but systems need to be designed with compliance mechanisms tailored to MSMEs.

THE FAO-EU FLEGT PROGRAMME

The FAO-EU FLEGT Programme was established in 2016 to support the implementation of the EU FLEGT Action Plan, funded by the European Union, the Swedish International Development Cooperation Agency, and the Foreign, Commonwealth and Development Office of the United Kingdom.

Percentage of committed support in VPA, non-VPA and regional projects



The Programme, which ended in 2022, sought to tackle illegal logging, promote trade in legal timber products, and ultimately contribute to SFM and poverty reduction. To this end, the Programme implemented 352 projects in 27 countries with a total budget of USD 50 584 350. The greatest investment was made in VPA countries, representing 73 percent of the budget, while 18 percent was invested in other tropical timber-producing countries, with the remaining supporting global and regional work. These projects adopted a combination of the following approaches:

- **Support to VPA countries:** providing technical expertise to partners in tropical timber-producing countries to meet nationally defined timber legality requirements established within the VPAs.
- **Support to non-VPA countries:** extending support to countries not engaged in VPA processes to promote legal timber production and better forest governance.
- **Private sector capacity building:** equipping MSMEs with the business management skills needed to increase market access and the knowledge and competencies necessary to comply with forest sector regulations.
- **Knowledge sharing:** exchanging knowledge and awareness-raising on FLEGT and FLEGT-related issues.
- **Impact monitoring:** documenting progress, achievements, and impacts of the FLEGT Action Plan and making information available through knowledge sharing.
- **Partner capacity building:** increasing the technical and institutional capacities of grantees.

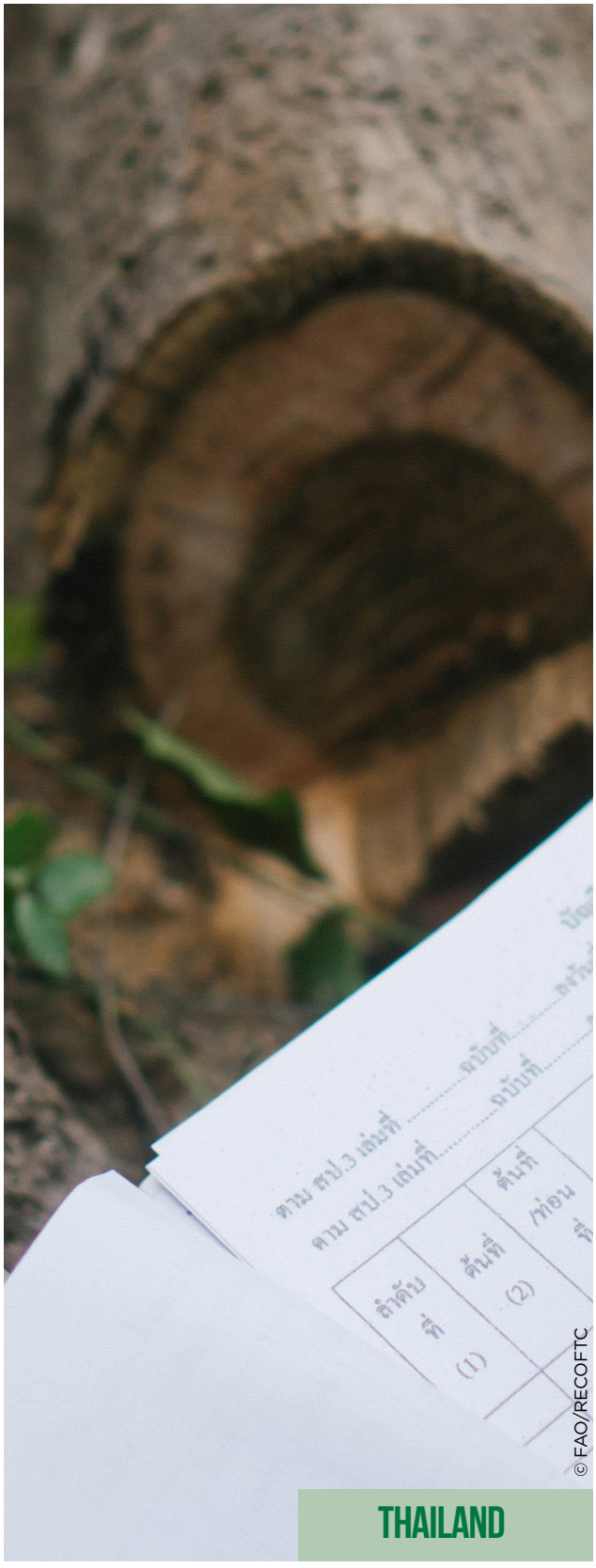
SUPPORT TO VPA COUNTRIES

National TLASs provide the structure to demonstrate the legality of timber and timber products exported to the EU by establishing a national legal standard and supply chain control mechanisms, including verifiers to be monitored and controlled in the field. Given its centrality to the VPA process, TLAS development was a priority of Programme support in all 15 VPA countries.[2] This included assisting governments in developing, testing and rolling out TLASs through the creation and strengthening of timber traceability and data management and monitoring systems, and facilitating stakeholder dialogue around the design of TLAS components. In total, 17 TLAS components were adopted or implemented as a result of Programme support.

To ensure inclusivity in the VPA process, 133 projects targeted CSOs and private sector representatives to build capacity for engaging in VPA negotiation and the associated legal and policy reforms necessary for TLAS implementation, reaching 15 701 stakeholders, with women representing 40 percent of participation.

Transparency in the VPA process and forest governance ensures accountability within the sector. 1 293 documents were made publicly available as a part of efforts to boost transparency and public disclosure of information. While 34 projects supported stronger information management, often built into broader verification systems.

The results achieved in VPA countries reflect the strength of each country's VPA process, varying amongst countries with robust, active or stalled processes. As a whole, results confirm the effectiveness of the VPA process as an anchor for engagement, bolstered by political support and stakeholder coordination towards a common goal. In VPA countries, more consistent and coherent support, the sheer number of projects implemented and a more formalized framework for stakeholder involvement all led to sustained engagement and successful outcomes.



THAILAND

2 **Issuing**: Indonesia **Implementing**: Cameroon, Central African Republic, Ghana, Liberia, Republic of Congo. **Negotiating**: Côte d'Ivoire, Democratic Republic of the Congo, Gabon, Guyana. Honduras, Laos, Malaysia, Thailand, Viet Nam.
3 Where gender disaggregated data was available.

SUPPORT TO NON-VPA COUNTRIES

The Programme supported 11 non-VPA countries,[4] which were selected following donor requests or in pursuit of strategic opportunities, and based on timing, intervention scope, and stakeholder interest. Seven non-VPA countries developed FELGT roadmaps through multistakeholder processes to guide interventions, four of which (Colombia, Guatemala, Peru and the Philippines) implemented the majority of the activities proposed.

While non-VPA countries do not have the same commitments to develop a national TLAS, timber legality verification and traceability systems remain important to meet emerging market demands for legal and sustainable timber. The Programme supported the development of 23 timber legality verification or traceability system components and tools across six countries, with fully operational systems in Benin, Colombia and Panama. Meanwhile, the expansion of independent forest monitoring has allowed civil society and forest communities to monitor, document and rveport suspected illegalities, further bolstering the credibility of timber legality initiatives.

Making forest governance processes inclusive and well-coordinated was equally important in non-VPA countries, as their VPA counterparts. The Programme supported nine forest governance-related multistakeholder platforms, which benefited from high levels of participation from women (31 percent), CSOs (21 percent) and the private sector (12 percent).

Contrary to VPA countries, the absence of an overarching and clearly defined end goal, low levels of trade with the EU, and low demand from export markets for timber legality and traceability all affected the urgency and motivation of governments and local stakeholders to engage in FLEGT-type activities and forest governance reforms. This limited the extent of broader reform of forest sector policy and legal frameworks.

PRIVATE SECTOR CAPACITY BUILDING

The effectiveness of timber legality assurance and verification systems is underpinned by the capacity of stakeholders to comply with their requirements, especially the private sector and MSMEs. Recognizing this, the Programme had a distinctive focus on private sector support, distinguishing it from other donor-funded efforts. This included supporting private sector actors to directly implement 70 projects with objectives of developing innovative due-diligence systems, participating in multistakeholder processes, and promoting knowledge development and exchange.

Meanwhile, CSOs and governments provided targeted support to MSMEs through 110 projects in 20 countries, with a total budget value of nearly USD 10.4 million, equating to 33 percent of the endorsed budget for projects.

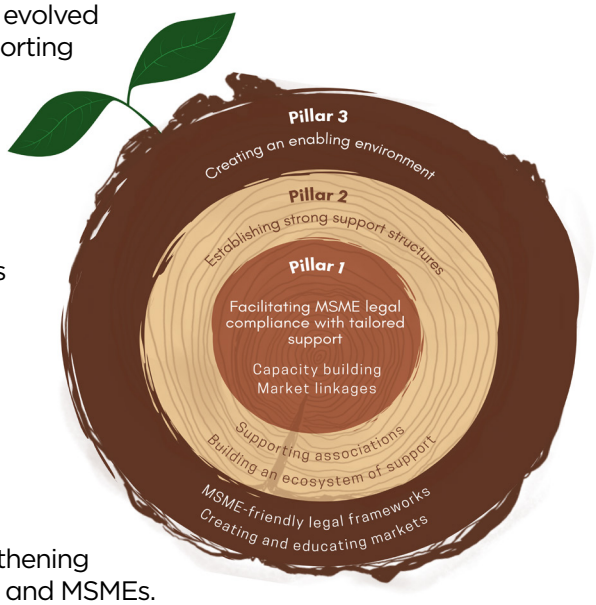
Table 1. Types of private sector stakeholders supported

Producers	Processors	Associations
• Individual tree growers • Community forests • Small and medium-sized enterprises • Indigenous peoples	• Artisanal chainsaw millers • Primary processors • Secondary processors • Furniture & handicraft artisans	• Agroforestry cooperatives • Local or provincial associations • National associations • Federations

4 Cambodia, Colombia, Guatemala, Madagascar, Mozambique, Myanmar, Peru, The Philippines, Uganda, Papua New Guinea, Panama

The Programme's approach to private sector support evolved into a holistic model consisting of three mutually supporting strategies or pillars of support:

1. private sector engagement through direct support (typically through capacity building and generating market linkages);
2. strengthening the institutions that support operators (private sector associations, CSOs and government); and
3. developing an enabling environment by promoting domestic market demand and relevant legal reform.



With these strategies, the Programme's impact on private sector legality occurred in two main areas:

- Creating an "ecosystem of support" by strengthening the institutions that support the private sector and MSMEs. 60 percent of MSME support projects were not implemented by the private sector itself, illustrating the strong and beneficial role of the government and CSO partners for associations that could not implement projects independently.

- Magnifying impact through supporting and forming new associations, enabling them to provide services that build the capacities of their members. Making funding available was a crucial component of this strategy, as many private sector associations received international financing for the first time through Programme grants, allowing them to provide crucial services to their members. Organizational support provided to national associations also increased engagement and representation of MSMEs in national policy debate and deliberation.

KNOWLEDGE SHARING

Improving the capacity of grantees to communicate with their beneficiaries and stakeholders effectively allowed them to better share experiences and lessons learned. Over 300 knowledge products and materials developed with Programme support provided a venue for stakeholder discussion that catalyzed further initiatives. This is expected to have long-term benefits for raising awareness and inciting behavior change as these grantees continue their work beyond the Programme's lifetime.

The Programme's work was featured in 882 media pieces. Improved communication skills have helped Programme partners to reach audiences beyond the forestry sector to highlight the impacts of unsustainable forest management practices and the requirements and benefits of legal and sustainable timber production and trade. In VPA countries, there was an extensive array of actions on communication, capacity building, and awareness-raising campaigns that educated the public on the TLAS and elevated the topic of timber legality to secure continued political support. While in non-VPA countries, increased public awareness contributed to maintaining the political momentum for SFM and more inclusive forest governance.

IMPACT MONITORING

In all VPAs, the EU and VPA partner countries make a joint commitment to monitor the agreement's economic, social and environmental effects on the forest sector and beyond. Monitoring examines whether the VPA and TLAS are having the desired outcomes and informs implementation and overall government policymaking. The Programme empowered stakeholder groups to contribute

to IM while also pioneering new data collection methodologies and identifying gaps in knowledge for which data collection methodologies need to be developed to support IM work. On-demand support led to the establishment of national VPA IM frameworks in six countries. These experiences can be built upon as more VPA countries focus on IM framework development with opportunities to share lessons and exchange knowledge on designing, measuring and monitoring complex indicators common to IM frameworks in multiple countries.

Given the challenge to objectively measure and attribute impact of VPA implementation, a more "safeguards" monitoring oriented approach could be used, in which perceptions surveys are used to create baselines and identify issues that need to be addressed. Further work is needed to help governments design the systems required to collect this data or explore the possibility of linking VPA IM with existing safeguard monitoring structures (e.g., REDD+ safeguard monitoring).

PARTNER CAPACITY BUILDING

A cadre of stakeholders with strong technical knowledge, project management capabilities, and reputational credibility enables continued improvements in forest governance and the legal timber trade well beyond the Programme's lifetime. Of the 189 grantees that received financial or technical support from the Programme, 85 percent received some level of training in project management and virtually all received strategic guidance during project design and implementation.

The Programme's small grant mechanism enabled partnerships with an array of relatively new and unknown grantees, many of whom had not previously implemented a donor-funded project. Gaining critical project management experience was especially beneficial for Indigenous Peoples' organizations, who, as a result of Programme support, gained greater access and credibility in national processes, established community monitoring bodies (Peru), or Free, Prior, Informed Consent protocols in line with VPA-related reforms (Honduras).

The technical support provided to grantees, combined with flexible grant mechanisms, contributed to concrete improvements in financial and project management. Advancements were observed in 78 percent of grantees previously evaluated as having a low institutional capacity for project management. 88 percent of all projects were evaluated by the Programme as having a positive outcome. Programme staff believe this success rate is higher than it would have been without administrative and technical support.

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PHILIPPINES

LESSONS LEARNED

Developing and implementing timber legality verification and assurance systems has been central to the FLEGT approach and Programme support to timber-producing countries. The sections below list some of the Programme's key lessons about systems development and implementation.

PARTICIPATORY LEGAL REFORM

Enhancing trade with more demanding and rewarding markets is a strong incentive for tropical timber-producing countries to develop robust and effective timber legality verification systems. The development of these systems requires a timber legality definition, grid, or standard to be measured against. This process provides a unique opportunity to clarify, improve, complement, and simplify legal frameworks in an inclusive and participatory manner.

Multi-stakeholder platforms: Longer-term institutional arrangements, such as multi-stakeholder and multi-sectoral structures or platforms, can be instrumental in initiating or maintaining progress towards more fundamental legal reform. Their institutionalized nature allows them to take advantage of "windows of opportunity" in government regulatory reform timeframes. Strengthening the technical capacity and legal knowledge of all stakeholders ensures these structures can meaningfully contribute to legal reform processes.

Inclusive participation: Ensuring the broad and equal involvement of marginalised stakeholders, including those most likely to be affected by changes to the legal framework, improves both the content of regulatory revisions and the likelihood they can be effectively implemented and enforced. Effective stakeholder consultation, based on thorough stakeholder mapping, helps ensure more comprehensive understanding and support, thus creating an enabling environment to promote legal timber production and trade.

DEVELOPING ROBUST AND COST-EFFECTIVE TIMBER LEGALITY VERIFICATION SYSTEMS

While the Programme focused on TLAS development for VPAs – which have specific design and system requirements – countries developing non-VPA timber legality verification systems can tailor them to include or combine:

- First-party verification or self-reporting and due diligence;
- Second-party field verification by governments or private sector associations; and
- Third-party audits of operators or the entire system by independently accredited bodies.

Modular Approaches: Adopting a phased-in or modular approach when rolling out a legality verification or traceability system allows implementing agencies to undertake test runs and pilots to raise awareness, train users, test applicability and feasibility, and navigate user concerns. This approach does not penalise non-compliant participants during initial phases and fosters a greater understanding of user capacities and challenges to ensure that requirements can be met when they become mandatory. Modular approaches create a pull effect for other supply chains, jurisdictions, operators, or segments of the sector to join. Generating early or regular "wins" (in the form of certificates and pre-licences) can ensure continued support for lengthy system development and rollout processes.

Alternative verification: Making the level of verification commensurate with the level of risk associated with different sources, operators, control points, or supply chains can improve cost-effectiveness while maintaining credibility and integrity. Risk-based verification allows for wider participation of lower-risk smallholders in legal and sustainable supply

chains. Some countries, such as Indonesia and Thailand, have enacted self-reporting or self-declaration of legality for lower-risk operators; for self-declaration to work, it is important to establish clear and publicly available reporting requirements and procedures, integrating safeguards to prevent fraud or data manipulation. Self-reported data should be made available for due diligence by downstream operators and second and third party verification or certification.

Voluntary certification: Voluntary third-party certification exists in all countries where legality verification systems are being developed or implemented. Promoting synergies between verification and certification – such as mutual recognition between the systems – can help prevent the development of parallel systems, avoiding extra burden and inefficiencies for operators moving towards sustainability. Synergies also allow optimal use of quality infrastructure for both verification and certification systems. It can also encourage compliance with other verification and traceability requirements by recognising these sources and operators as meeting the "control" or due diligence requirements associated with the chain-of-custody standard of voluntary certification systems.

Transparency: Any timber legality verification system is valuable as long as the system's requirements and scope, control and oversight mechanisms, verification results, and product or operator claims are clear and publicly documented. This transparency helps national stakeholders comply with, verify or monitor the system. A well-documented system can also be independently assessed to inform and facilitate due diligence required by more demanding markets.

Country priority and export market alignment: In the absence of a formal bilateral trade engagement on the legal or sustainable timber trade, such as a VPA process, tropical timber-producing countries generally face more challenges securing strong political commitment to the development of timber legality verification systems. An "anchor" is needed to secure government and wider stakeholder support. This "anchor" and starting point can be an existing timber legality definition, a traceability system, a multi-stakeholder forest governance platform, or a national wood sector development strategy or plan.

System scope and development should be aligned with key export markets to create the necessary trade incentive or pull effect. Verification and associated traceability systems should help demonstrate compliance with evolving international due diligence requirements and procurement policies. They should also be used to promote more legality on the domestic market and provide a reliable supply-chain information management system in support of more cost-effective legality verification.

INDEPENDENT FOREST MONITORING

Independent forest monitoring (IFM) and associated complaints mechanisms should be formalised and integrated into timber legality verification systems where possible. In addition to providing independent oversight into the functioning of these systems, IFM contributes to enhancing transparency, supporting forest law enforcement, and ultimately improving forest governance.

Community involvement: Involving local forest communities and Indigenous Peoples in IFM can ensure sustainable and regular monitoring of forest activities in remote areas. These communities have a strong interest in ensuring that their forest resources are protected, and their proximity to forests allows for longer, more opportunistic, and more cost-effective excursions to monitor forest activities.

Transparency: To implement their functions efficiently and effectively, independent forest monitors need access to relevant data and information from government departments and ministries on private sector operators. In turn, monitors contribute to transparency by making information on recorded illegalities, follow-up actions, and prosecution by law enforcement agencies publicly available. A complaints mechanism allows any forest sector stakeholder to challenge IFM reports.

Value chain monitoring: While IFM has traditionally focused on the extractive or primary industry, adopting a value chain approach (including processing, transport, and export) can significantly increase understanding of illegalities and allow deeper oversight of value chains to identify timber laundering points. Further, integrated monitoring along the entire timber supply chain focussing on high-risk sources and points, is a more cost-effective approach to monitoring.

Linking with other sectors: Availability of sustainable funding ensures IFM remains effective and contributes to the credibility of timber legality verification systems or voluntary certification. IFM currently relies on financial resources from international partners, which is unsustainable by nature, generating a need to develop alternative and independent funding options for IFM. Establishing a dedicated IFM fund to provide grants to IFM organizations can provide a buffer between the funding sources and the IFM function. Additionally, with a growing global interest in deforestation-free supply chains, expanding the IFM approach to other commodities, such as palm oil, cocoa, or coffee, could help diversify the funding sources to expand and maintain IFM activities, ensuring a more integrated and cost-effective approach to monitoring illegalities in forest landscapes.

MICRO, SMALL AND MEDIUM ENTERPRISE LEGAL COMPLIANCE

The long-term viability of timber legality verification systems relies on sufficient compliance of MSMEs with the requirements to ensure economic, developmental, governance improvements.

MSME support structures: Special attention is needed to develop and maintain a long-term, comprehensive and holistic "ecosystem of support" by engaging government, private sector and CSO partners, allowing different actors simultaneously deploy their unique roles and strengths to support MSMEs. Forestry interventions need to engage ministries or departments with the mandate to help small businesses which can offer resources and expertise for forest sector MSMEs.

Long-term mentoring: Achieving full compliance with timber legality verification systems requirements is difficult for MSMEs lacking the time and resources to overhaul their business practices without support. Long-term coaching provides the mentoring and individualised attention needed for businesses pursuing legal compliance. Support directed through associations and expanding collaborations with the government allows these actions to take place at scale.

Business skills development: Packaging capacity building on timber legality verification systems compliance with business skills development and improved production techniques provides an incentive for legality as beneficiaries can immediately gain knowledge that improves the profitability of their business – making them more likely to attend and engage in trainings. In turn, private sector stakeholders can capitalise on the benefits of legality via their newly acquired skills to manage their businesses more efficiently, improve their production skills, and access wider markets.

IMPACT MONITORING

To ensure that timber legality verification systems are functioning as planned without causing unintended negative consequences, it is necessary to define impact monitoring structures.

Data availability: Despite the resources invested in developing IM frameworks for timber legality assurance systems developed through VPA processes, conducting this impact monitoring has been a challenge due to poor data availability. Even where there was sufficient and reliable data, measurements were often inconclusive. Experience has shown a problem of sole attribution of impact to system implementation, especially since most VPA TLASs are not yet fully implemented (FLEGT Licensing stage). An extra challenge is the absence of a baseline scenario (particularly in the absence of a VPA) against which to measure relative progress.

Perception survey data monitoring: "Expert Perception Surveys" are a practical and more cost-effective alternative to the more specific and data-dependent IM frameworks developed. Already, these perception surveys have indicated slight to medium improvements or impact of TLASs developed and implemented in several VPA countries. Regular perception surveys could be used to determine whether there is continued stakeholder support for system implementation and to detect possible negative impacts (i.e., on livelihoods, businesses) on specific stakeholders or segments of the forest sector and could help develop targeted corrective actions.

BUILDING PARTNER CAPACITY

It is not possible to develop robust timber legality verification systems in a participatory manner without building the technical capacity of involved stakeholders, allowing them to envision, pilot, study, or design aspects of legality verification systems.

Strong relationships: Productive and mutually beneficial relationships between partners and key stakeholders, including target project beneficiaries, are among the most critical success factors for project implementation. Support has been less successful when the converse is true – and there is no real engagement of project delivery partners, or when the grantee has poor or non-existent relations with key actors like government.

Continuous support: Multi-year reiterative grants enable long-term grantees to deliver increasingly targeted and sophisticated interventions. As a result, grantees became well-positioned within forest governance platforms, particularly in the case of civil society organizations and private sector organizations. Grantees can envision and execute more complex and strategic interventions in successive grants as they increase their capacity and enlarge their networks.

CONCLUSIONS AND RECOMMENDATIONS

The FAO-EU FLEGT Programme has built a strong foundation for future interventions based on results and the lessons learned generated throughout implementation. It yielded lessons on a number of areas in which the Programme generated unexpected impacts in the pursuit of the FLEGT AP's goals. These are as follows:

- In promoting inclusive stakeholder participation in governance processes, relationships between stakeholders were strengthened in a way that allowed grantees to mutually support each other's activities and collaborate beyond their project's core intervention.

- In pioneering FLEGT interventions in non-VPA countries, and in seeking to increase private sector compliance with legal requirements, new associations and representative platforms were created that will continue FLEGT work beyond the Programme's lifetime.

- In creating a demand-driven grant programme that enabled stakeholders to envision and enact their own solutions to forest governance challenges, the Programme built a network of grantees with strong project management and technical skills, who can serve as partners to future programmes.

There were a number of areas in which the Programme was unable to generate or measure impact. To address these shortcomings, the following actions are recommended for future programming:

- Indicators for monitoring livelihood and gender impacts need to be identified at the outset of the Programme together with a methodology for measuring these indicators, which can be built as activities into grantee project design and included in project management trainings.

- Resources need to be allocated for long-term follow-up of beneficiaries who received capacity building towards legal compliance or formalization. The Programme could not quantify the number of private sector actors who formalized as a result of Programme support because formalization is a long-term process that is not frequently completed within a single grant cycle. Multiple grants to organizations over multiple years provide a greater chance to collect data on impacts that require years to mature.

- Legal reform can be pursued based on risk-based or differentiated criteria for MSMEs. In cases where it is difficult to achieve comprehensive legal reform, alternative requirements for compliance can be defined based on risk levels or size of the enterprise, which would be simpler, cheaper, propose different timelines or paperwork requirements for compliance.

- Targeted interventions are needed to accomplish difficult but essential objectives, such as creating structural incentives for large companies to do business with MSMEs and providing incentives to formalize (access to credit and services, tax reduction, etc.).

- Working with countries on legality verification and traceability systems and the digitization of permitting processes will not only aid legality and promote transparency, but will also enable the collection of data necessary for countries to generate more accurate statistics about the legal timber trade. This is crucial for being able to demonstrate increased production and trade of legal timber.

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FAO-EU FLEGT PROGRAMME

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